

Renewal Communities in Alabama

Purpose: The Renewal Community Program provides for the designation to 40 communities throughout the United States in order to assist in economic development and expansion through the provision of federal tax incentives for businesses located, locating or expanding in the designated areas.

In January of 2002, three areas received federal designation as Renewal Communities in Alabama. The areas are Greene and Sumter counties, East Mobile and Prichard, and nine Black Belt counties in southern Alabama. The southern Alabama area designated includes all or part of the following counties: Butler, Conecuh, Dallas, Hale, Lowndes, Marengo, Monroe, Perry and Wilcox.

Renewal Community Business Definition: Generally, a Renewal Community Business is defined as a corporation, partnership, or sole proprietorship that for each taxable year actively conducts every trade or business of the entity in a Renewal Community (RC), at least 50% of the total gross income of the entity is derived from the active conduct of business within a RC, a substantial portion of the use of the tangible property of the entity is within a RC, a substantial portion of the intangible property of the business is used in the active conduct of the business, a substantial portion of the services performed for the employer by its employees occur within a RC, at least 35% of the employees reside in a RC, no more than five (5) percent of the property is nonqualified financial property except for reasonable amounts of working capital held in cash, cash equivalents, or debt instruments, and no more than five (5) percent of the property is works of art or other collectibles unless held for sale to customers.

RENEWAL COMMUNITY TAX INCENTIVES:

A. Wage Credits for employing Renewal Community residents

This credit against Federal taxes of up to \$1,500 for each year of Renewal Community designation may be claimed for all existing employees and every new hire living in the designated Renewal Community area and employed by a business entity located in the Renewal Community. These credits are available beginning January 1, 2002 and will remain in effect through December 31, 2009. Possible exclusions to this incentive are startup businesses that may not have large tax liabilities, nonprofit organizations, or businesses whose employees spend the majority of their time working outside a Renewal Community location.

Exclusion:

This credit is not available for individual(s) employed at any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other gambling facility or store whose principal business is the sale of alcoholic beverages for consumption off premises.

B. Increased Section 179 Deduction

This deduction allows businesses located in the Renewal Community area to claim increased Section 179 deductions up to \$35,000 for property acquired after December 31, 2001, if the business qualifies as a Renewal Community Business. The deduction can be claimed on certain depreciable property such as equipment and machinery. Possible exclusions to this incentive are businesses that cannot meet the definition of a Renewal Community Business, consolidated companies with large equipment needs within the entire consolidated group, equipment that will be used outside the Renewal Community, companies with large expensive equipment needs on a yearly basis, startup businesses that expect tax losses or other normal business expenses to equal income, and businesses with equipment that has a short economic life.

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Exclusion:

This deduction cannot be used for residential rental activity, commercial real estate, unless at least 50 percent of the gross rental income is from Renewal Community Businesses, rental of personal property, such as car rental agencies, unless at least 50 percent of the rentals are to Renewal Community Businesses, or to RC residents, businesses that predominately hold or develop intangibles for sale or license, county clubs, liquor stores, golf courses, racetracks, or gambling facilities.

C. Commercial Revitalization Deduction

An accelerated depreciation deduction can be taken for one-half of the qualified construction/revitalization expenditures in the first year a building is placed in service or all of the construction/revitalization expenditures can be depreciated over a ten-year period. This deduction is available for buildings placed in service after December 31, 2001 and before January 1, 2010. Alabama's Renewal Community Agency may allocate up to \$10 million per project for each year from 2002 to 2009. **Additionally, the business does not have to be a Renewal Community Business; of course the building must be located in the Renewal Community. Prior approval must be obtained from the designated Renewal Community Agency prior to qualifying for this deduction.**

Exclusion:

Possible exclusions to this deduction are developers of residential rental projects, building acquisitions that do not involve substantial renovation expenditures, land speculation purchases, and startup or similar businesses with insufficient income to take advantage of accelerated depreciation.

D. Zero Capital Gains Rate for Renewal Community Assets

The holder, for a minimum of five (5) years, of a Renewal Community asset acquired between January 1, 2002, and December 31, 2009, will not have to include in its gross income any qualified capital gain from the sale or exchange of the asset. The following qualify as Renewal Community assets: business stock, partnership interests, and business properties. Capital gains attributable to the period from January 1, 2002 through December 31, 2014 may be excluded.

Exclusion:

This incentive is not relevant to businesses that cannot meet the definition of a Renewal Community Business (see above), businesses that acquire stock or partnership interests issued before or after the RC designation period, businesses that purchase existing assets that will not be rehabilitated substantially within a 2-year period, taxpayers who do not expect to hold stock, partnership interests or assets for the minimum 5-year holding period, and taxpayers with capital gains on intangible assets or who own land that is not an integral part of a RC business.

Source: Alabama Department of Economic and Community Affairs, Technical Assistance Division
<http://www.adeca.state.al.us/C15/RC/default.aspx>